

## General Government Accounts: the European Experience

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The European Union (EU) is a unique construction. It gathers 25 countries of Europe, which try to build a "Union". This Union has no precedent in the history of nations. It is not a federation, because it has limited powers compared to federations. While it is difficult to define, it is at least possible to say that the EU sets several common "policies". The policy for agriculture is the most important example. One of the most recent other achievement (1999) of the Union is the creation of a single currency, the Euro, by a sub-group of 12 EU countries.

A common currency between countries can only function under several conditions. One of it is that member countries' governments respect sound financial rules. If one government let its deficit to rise too importantly, this could affect all other governments, because of the loss of credibility of the currency on the markets and the rise in the overall rate of interest. Thus the EU has decided by treaty of a set of financial criteria, called the "Maastricht criteria", because the treaty (also called the "Stability and Growth Pact") was signed in the town of Maastricht (Netherlands). The first Maastricht criterion is that government deficit should be below 3% of GDP. When a country does not follow this rule, a procedure called "Excessive Deficit Procedure" (EDP) is started, with possible sanctions to the member country. The second criterion, linked to the first, is that the government debt should remain below 60% of GDP.

The interesting feature of these criteria for statisticians is that EU governments chose to use the SNA as the statistical framework for the compilation of these criteria. More precisely they use the European System of Accounts (ESA 95) which is the European version of the SNA 93. The ESA 95 is consistent with the SNA, but more precise. It is also an EU regulation, which has to be implemented by EU countries in all its detail by law.

The Maastricht treaty defines the coverage of the general government sector exactly as the S13 sector of the SNA/ESA. It thus includes Central Government, Local Government and Social Security. The deficit (or surplus) is defined as the balancing item B9 "Net lending/borrowing" of the SNA/ESA. The debt is defined as the consolidated sum (at nominal value) of F2: currency and deposits, F3: Securities other than shares<sup>1</sup>, F4: loans. Because these definitions are exactly those of the SNA/ESA, national accountants in EU are in the "front line" for the compilation of public finance data.

Public finance decisions (taxes and spending) are now closely linked with the Maastricht criteria. Currently, eleven countries of the EU record a deficit above the 3% of the Maastricht criterion, of which large countries: Poland (not part of EMU), Germany, France, Italy, and United Kingdom. The Excessive Deficit procedures of the Treaty should therefore be applied to these countries, with somewhat severe diplomatic, if not financial, consequences. This means that national and European statisticians are under big pressure to ensure that the criteria are correctly compiled. It is not uncommon that heads of national accounts of EU countries spend 80% of their time exclusively on issues regarding the general government accounts.

This pressure for accuracy has resulted in a big effort by EU countries to improve the source of their data on general government accounts. It is first necessary to have a full coverage of all the accounts of all government units. It is also essential to master difficult delineation issues: is this unit inside or outside the

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<sup>1</sup> Excluding financial derivatives

general government? It is also necessary to master the recording of complex financial transactions, in particular between government and public enterprises. Examples of these difficult issues are: the treatment of exchanges of pension liabilities against a cash lump sum; how to treat exceptional dividends from large public enterprises; how to treat the securitization of future government revenues.

Eurostat plays a significant and growing role in this process, similar to an “audit” company. It has put in place a very formal procedure for countries to follow. Countries have to report to Eurostat any difficult case, then a EU task force is created to discuss the recording of the case, then a formal questionnaire is sent to the members of the CMFB (Committee for Monetary and Financial and Balance of Payments Statistics, composed of representatives of Statistical Offices and Central Banks’ Statistical departments). Finally, based on the majority responses of the CMFB, Eurostat makes a decision, which is finally publicly disseminated. Eurostat then checks the implementation of this decision by all EU countries. These many decisions are grouped inside the “Manual on Deficit and Debt”, which is available on Eurostat’s web site. It can be considered as containing the jurisprudence of difficult cases.

What are the lessons of this experience for non EU countries?

First, it is that national accounts is no more only “GDP”. More and more national accounts’ institutional sector accounts are used to monitor the economy, and in particular the general government accounts. This role of national accounts has its origin from the fact that, up to now, the SNA/ESA is the only common accounting method applied on a wide international basis for general government. Of course the European experience is specific because the European Union is specific. The USA or China would probably not accept to be scrutinized by an outside “auditor” as the EU countries accept today to be scrutinized by Eurostat. Nevertheless, it is probable that general government accounts in the framework of national accounts will increase in importance even outside the EU.

The European experience has also allowed EU countries’ statistical offices to improve dramatically the quality of their data on general government and to significantly increase their status in particular vis-à-vis the Minister of Finance, because of their new responsibility. National accountants are, in exchange, confronted with very difficult and complex transactions that they have to understand perfectly in order to record them correctly in the accounts. The recording chosen, in total independence, may be sometimes not very favorable to the minister of finance. The construction of a solid and extensive jurisprudence, backed on an international organization led by Eurostat, has helped national accountants to sustain these difficult situations when they occur, and, finally, to contribute to better information to all citizens on the situation of the public finance. Of course, this needs resources, staff and excellent cooperation on data and explanations between the statistical office and the Minister of Finance. All is not perfect, and some crisis occurred (for example recently in Greece and Portugal, where the data reported to the statistical office had been incomplete). But it is fair to say that the process has overall been largely positive.